

Message Text

SECRET

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FM AMEMBASSY MOSCOW

TO SECSTATE WASHDC IMMEDIATE 5350

S E C R E T MOSCOW 14434

NODIS

E.O. 11652 GDS

TAGS:ETRD, UR, US

SUBJECT: OIL/GRAIN NEGOTIATIONS

FROM ROBINSON

1. FOLLOWING IS INFORMAL TRANSLATION OF LETTER WHICH
PATOLICHEV GAVE ME AT MEETING OCTOBER 9. IN UNDERSTAND
THAT SUBSTANCE OF THIS LETTER, IF NOT TEXT ITSELF, WAS
GIVEN TO SECRETARY BY DOBRYININ AT MEETING HELD IN WASHINGTON
OCTOBER 8 AT 1700 LOCAL.

2. BEGIN TEXT

YESTERDAY, OCTOBER 8, YOU GAVE ME A LETTER WITH THE FOLLOWING
CONTENTS:

"DEAR MINSSTER PATOLIVHEV:

IT IS UNDERSTOOD THAT THE PRICE OF OIL AND PETROLEUM PRODUCTS
PURCHASED AND SOLD PURSUANT TO THE AGREEMENT WHICH OUR TWO
GOVERNMENTS ARE TO CONCULE SHALL BE ESTABLISHED ON THE BASIS OF
WORLD PRICES. TO TAKE ACCOUNT OF TRANSPORTATION AND OTHER FACTORS,
INCLUDING THE NEED FOR SUCH OIL TO BE COMPETITIVE IN UNITED STATES
MARKETS, IT IS AGREED THAT THE PRICE OF A SIMILAR QUALITY SOVIET
OIL, FOB NOVOROSSISK, WILL BE 15 PERCENT LESS THAN THE FOB MARKET
PRICE, RAS TANURA, OF 34 DEGREE ARABIAN LIGHT CRUDE OIL.
PETROLEUM PRODUCTS SHALL BE PRICED AT THE COMPETITIVE EQUIVALENT
OF THE PRICE OF CRUDE OIL. UNLESS OTHERWISE AGREED BT THE PARTIES,
ALL OTHER TERMS AND CONDITIONS WILL BE IN ACCORD WITH NORMAL
COMMERCIAL PRACTICE."

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TO AVOID ANY MISUNDERSTANDING ON THE QUESTION OF PRICES FOR SOVIET

OIL AND PETROLEUM PRODUCTS, I CONSIDER IT ESSENTIAL TO INFORM YOU THAT THE SOVIET POSITION ON THIS QUESTION HAS BEEN PRESENTED TO YOU ORALLY ON SEVERAL OCCASIONS, AND WAS ALSO REFLECTED IN THE DRAFT SOVIET LETTER OF INTENT, WHICH WERE GIVEN TO THE AMERICAN SIDE DURING THE NEGOTIATIONS.

IN THE FIRST DRAFT, THE SOVIET POSITION ON PRICES FOR OIL AND PETROLEUM PRICES WAS FORMULATED IN THE FOLLOWING MANNER:

"PRICES OF OIL AND PETROLEUM PRODUCTS SHOULD BE MUTUALLY AGREED AND WILL BE ESTABLISHED IN THE CONTRACTS ON THE BASIS OF WORLD PRICES, TAKING INTO ACCOUNT THE QUALITY OF THE CRUDE OIL AND PETROLEUM PRODUCTS SUPPLIED AND TRANSPORTATION CONDITIONS."

DURING OUR SUBSEQUENT DISCUSSIONS AND IN OUR SEARCH FOR A MUTUALLY-ACCEPTABLE SOLUTION, THE SOVIET SIDE PROPOSED A NEW FORMULATION ON THE QUESTION OF PRICES FOR OIL AND PETROLEUM PRODUCTS, AS FOLLOWS:

"PRICES FOR CRUDE OIL AND PETROLEUM PRODUCTS WILL BE MUTUALLY AGREED AT A LEVEL WHICH WILL ENSURE THE INTERESTS OF THE GOVERNMENT OF THE SOVIET UNION AND THE GOVERNMENT OF THE UNITED STATES."

THE SOVIET SIDE CONTINUES TO BELIEVE THAT BOTH THESE FORMULATIONS ON PRICES FOR OIL AND PETROLEUM PRODUCTS ARE IN ACCORDANCE WITH THE INTERESTS OF THE PARTIES, AND ALSO WITH THE EXISTING WORLD PRACTICE IN THE TRADE OF THESE COMMODITIES. FOR THIS REASON, YOUR IDEA ON THE SALE OF SOVIET OIL AND PETROLEUM PRODUCTS AT PRICES LOWER THAN THOSE PREVAILING ON THE MARKET, AS WE HAVE TOLD YOU MANY TIMES, IS COMPLETELY UNACCEPTABLE FOR THE SOVIET SIDE.

IN THIS CONNECTION, I WOULD LIKE TO NOTE THAT THE PROPOSALS OF THE SOVIET SIDE PRESENTED ABOVE CONCERNING THE PRICES OF OIL AND PETROLEUM PRODUCTS ARE GENERALLY IN ACCORD WITH THE PROCEDURE FOR THE DETERMINATION OF PRICES WHICH WE HAVE AGREED IN THE DRAFT LONG-TERM AGREEMENT ON THE PURCHASES OF UNITED STATES GRAIN BY THE SOVIET UNION, AND NAMELY:

"PURCHASES/SALES OF WHEAT AND CORN UNDER THIS AGREEMENT WILL BE MADE AT THE MARKET PRICE PREVAILING FOR THESE PRODUCTS AT THE TIME OF PURCHASE/SALE AND IN ACCORDANCE WITH NORMAL COMMERCIAL TERMS."

END TEXT

STOESSEL

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